

Hindustan Zinc: Attractive valuations

Rising prices, higher volumes and lower costs translate into strong earnings growth

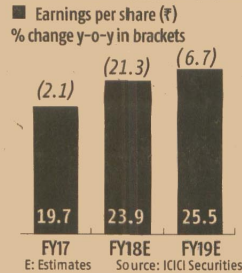
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After hitting 52-week highs, the scrip of Hindustan Zinc has fallen 20 per cent to the current ₹265. While this is due to some correction in zinc prices on the London Metal Exchange (LME), company fundamentals and the outlook for zinc prices are strong. Hence, these corrections are good opportunities to accumulate the stock.

Per-tonne zinc prices, after seeing a high of \$2,950 in February on the LME, had corrected to \$2,425 in June. This has sharply rebounded to cross \$2,700 a tonne. The outlook remains strong, given demand-supply mismatch.

International Lead and Zinc Study Group's forecast for 2017 suggests the deficit in refined zinc is likely to increase to 226,000 tonnes, compared to a deficit of 196,000 tonne in 2016. Referring to the study, analysts at ICICI Securities said the refined zinc market has been in deficit in three of the past five years (2013, 2014 and 2016). And, deficit has augured well for global prices in the past.

STRONG PROFIT GROWTH IN FY18



Analysts at Reliance Securities in a recent note said they continue to be optimistic on prices, led by the supply deficit due to closure of mining and smelting capacities, and depleting inventories. In 2016, zinc prices at the LME had increased 63 per cent over a year before, and are expected to remain firm in 2017, translating into strong outlook for Hindustan Zinc.

The company had delivered the best-ever quarterly performance (March quarter), primarily on account of record mined metal volume

and strong prices. As mined metal output increased 66 per cent over a year and 13 per cent sequentially to 312,000 tonnes, zinc realisation increased 65 per cent over a year and 10 per cent sequentially to \$2,770 a tonne. All this led operating earnings to rise 190 per cent over a year and 35 per cent sequentially to ₹3,770 crore.

Production performance remains strong. Edelweiss Research data suggest zinc volume in May for the company surged 100 per cent over a year to 68,000 tonne. While zinc volumes surged after the stabilisation of underground mining at the Rampur Agucha mine, lead volume grew following the SK mine ramp-up. Year-to-date FY18 operating performance suggests a good probability of the June quarter consensus estimate being met and per-tonne cost of production getting restricted within ₹55,000 due to operating leverage benefits, adds Edelweiss.

All this indicates earnings momentum for Hindustan Zinc remains strong and corrections in the stock are opportunities to buy.